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STATE PLEASE PASS TO AIT/W AND EAP/RSP/TC

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SUBJECT: TAIWAN PHARMACEUTICALS: MIXED PROGRESS

¶1. Summary. On July 27, AIT and International Research-based Pharmaceutical Manufacturers Association (IRPMA) met with Taiwan's Bureau of National Health Insurance (BNHI) officials for the third time since the May 25-26 TIFA talks to discuss main issues related to the Price Volume Survey (PVS): generic grouping and patent term. BNHI indicated flexibility on the patent term issue after IRPMA presented rationales. BNHI clarified to AIT on July 28 that all issues related to the Fifth PVS remain open until September 30 for discussion with USTR and possible change. End Summary.

Taiwan Welcomes USTR Mid-August Visit

¶2. On July 28, AIT met with the BNHI and Department of Health (DOH) and received assurance that all aspects of the PVS will be open for discussion and possible modification during the USTR visit in mid-August 2006. BNHI recommended that future AIT delegations to the consultation include representatives of PhRMA, Washington and the AmCham Pharmaceutical Committee to facilitate communication on technical issues.

Patent Term

¶3. During the July 27 consultations with IRPMA and AIT, BNHI indicated it may redefine the patent term from 22 years to 24 years by adopting the Merck Index 1982, as suggested by IRPMA. However, Alex Chang, Chairman of IRPMA, noted that no final consensus was reached on the patent term.

¶4. Note: The Merck Index (MI), a one-volume encyclopedia of chemicals, drugs and biologicals, was first published in 1889 and has been updated periodically since then. BNHI and the pharmaceutical industry in Taiwan have adopted the MI 1980 as the standard reference to define patented drugs for the PVSs implemented in 2003 and 2005. End Note.

Generic Grouping

¶5. Also at the July 27 consultations, IRPMA noted that generic grouping (which refers to the BNHI practice of grouping off-patented drugs and generics of same ingredients into a common average price category) destroys the market mechanism. IRPMA was concerned that the generic prices were not accurate due to heated competition and discount prices over the past few years. IRPMA believes that generic grouping allows generic pharmaceuticals to offer steep discounts to hospitals and thus greatly restricts the use of

patented pharmaceuticals. BNHI officials said generic grouping is too broad an issue to be resolved quickly, and needs further discussion with local industrial associations. BNHI President Liu Chien-Hsian said that DOH Minister Hou has instructed him to establish a task force of six local pharmaceutical related associations and IRPMA to discuss controversial issues related to the PVS. Liu encouraged IRPMA to participate in the task force.

Data Validation Comment Period Is Extended

¶6. At the July 27 meeting, BNHI extended by one week the two-week comment period for individual drug companies to verify the accuracy of price data from distributors. IRPMA and AmCham Pharmaceutical Committee members indicated they are satisfied with these price validation arrangements.

BNHI Action on Data Accuracy

¶7. BNHI President Liu noted that BNHI was working with the Ministry of Justice on an initiative to combat false data reporting. Liu urged companies to provide more input for improving data accuracy and auditing mechanisms.

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